

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Canada

## Livestock and Products Annual

**2014**

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**Report Highlights:**

The cattle herd will continue to shrink in 2015, as record high animal prices prompt many producers to liquidate, while beef heifer retention remains weak. Relatively cheaper feed in the United States will support vigorous cattle exports. Beef supply will remain tight, below the 2014 level, and a weaker dollar will favor exports and discourage imports. The hog sector stays stable, continuing a trend of moderate growth. Pork production and exports are expected to show a modest increase.

## **Executive Summary:**

### **Cattle & Beef**

The cattle herd will continue to shrink in 2015, after both the January 1, 2014 and the July 1, 2014 herd estimates came in below the respective 2013 levels. Record high live animal prices are the primary reason for this development, as many of the older generation producers have seen these as the opportunity of their lifetime to liquidate and retire from business. While sustained high cattle prices would eventually prompt remaining producers to retain more beef heifers and consider expanding, for the time being, heifer retention has been inadequate to compensate for the beef cows and heifers lost to slaughter. In 2015, Canada will enter its fourth year of cattle sector consolidation, which is currently expected to extend well into 2016.

An increasing number of feeder cattle are expected to be exported to the United States in 2015, based on very attractive feeder prices which are the result of the relatively cheaper feed south of the border, and the prospects of a bumper corn crop. Total cattle exports, though, are forecast to be just under the estimated 2014 level. Cattle slaughter in Canada is expected to decline in 2015, due to the overall tight supply of animals and the fact that some producers may start considering expanding and would retain more heifers for beef cow replacement. Carcass weights are not expected to be much different in 2015 from their 2014 levels, resulting in a reduced beef production. Despite limited supplies of beef, exports will continue to be supported by a weaker Canadian dollar, while importers will struggle to source beef to satisfy the needs of the domestic market.

### **Hogs & Pork**

The hog sector remains stable and is expected to post a moderate growth in 2015. While sector profitability has tremendously improved in 2014, driven by record high hog prices, producers are still reluctant to launch themselves into a wide-scale herd expansion. Many producers prefer to use their increased revenues to repair and upgrade their current operations, pay off debts and become financially more secure, while there are still some producers who continue to struggle financially. Pig production and slaughter are expected to only modestly increase in 2015.

Carcass weights are expected to stay at similar levels as in 2014, after having already shown steady gains over the past few years. Consumer reports continue to indicate that domestic demand for pork has remained elevated during the past several months. Given the recent increases in retail meat prices, pork has remained a relatively cheaper choice, prompting many consumers to switch away from beef or poultry. Pork production in 2015 is estimated to increase modestly, but the bulk of consumption will continue to take place abroad, as pork exports remain at historically high levels.

**CATTLE:**

*NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data*

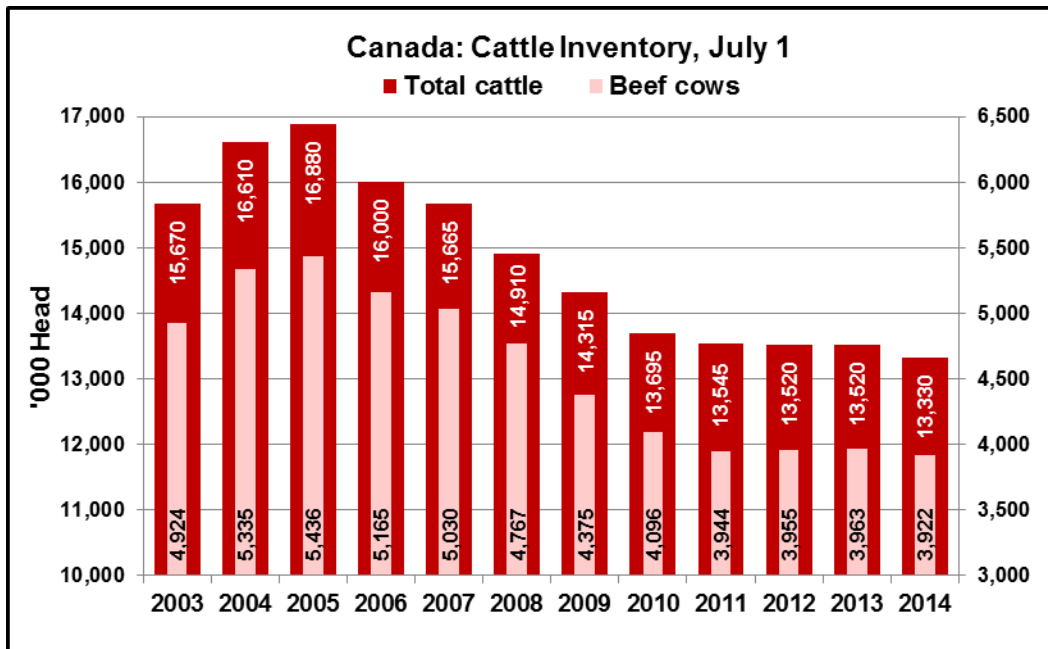
<b>CANADA</b> <b>Animal Numbers</b> <b>CATTLE ('000 head)</b>	<b>2013</b>		<b>2014</b>		<b>2015</b>	
	<b>USDA Official Data</b>	<b>NEW Post Data</b>	<b>USDA Official Data</b>	<b>NEW Post Estimates</b>	<b>USDA Official Data</b>	<b>NEW Post Forecast</b>
Total Cattle Beg. Stks	12,305	12,305	12,215	12,220	0	11,985
Dairy Cows Beg. Stocks	961	961	959	959	0	959
Beef Cows Beg. Stocks	3,935	3,935	3,905	3,905	0	3,875
Production (Calf Crop)	4,490	4,516	4,475	4,480	0	4,440
Total Imports	59	48	50	45	0	45
<b>Total Supply</b>	<b>16,854</b>	<b>16,869</b>	<b>16,740</b>	<b>16,745</b>	<b>0</b>	<b>16,470</b>
Total Exports	1,048	1,044	955	1,100	0	1,050
Cow Slaughter	490	490	450	450	0	425
Calf Slaughter	260	269	255	250	0	250
Other Slaughter	2,293	2,307	2,305	2,425	0	2,325
Total Slaughter	3,043	3,066	3,010	3,125	0	3,000
Loss	548	539	520	535	0	525
Ending Inventories	12,215	12,220	12,255	11,985	0	11,895
<b>Total Distribution</b>	<b>16,854</b>	<b>16,869</b>	<b>16,740</b>	<b>16,745</b>	<b>0</b>	<b>16,470</b>

**Cattle Herd to Shrink for a Second Consecutive Year**

The cattle herd will continue to shrink in 2015, after both the January 1 and the July 1, 2014 herd estimates came in below the respective 2013 levels. The number of beef cows is forecast to decline by 1 percent on January 1, 2015, and a similar reduction is expected for the calf crop in 2015. Canada will enter its fourth year of cattle sector consolidation, which is currently expected to extend well into 2016.

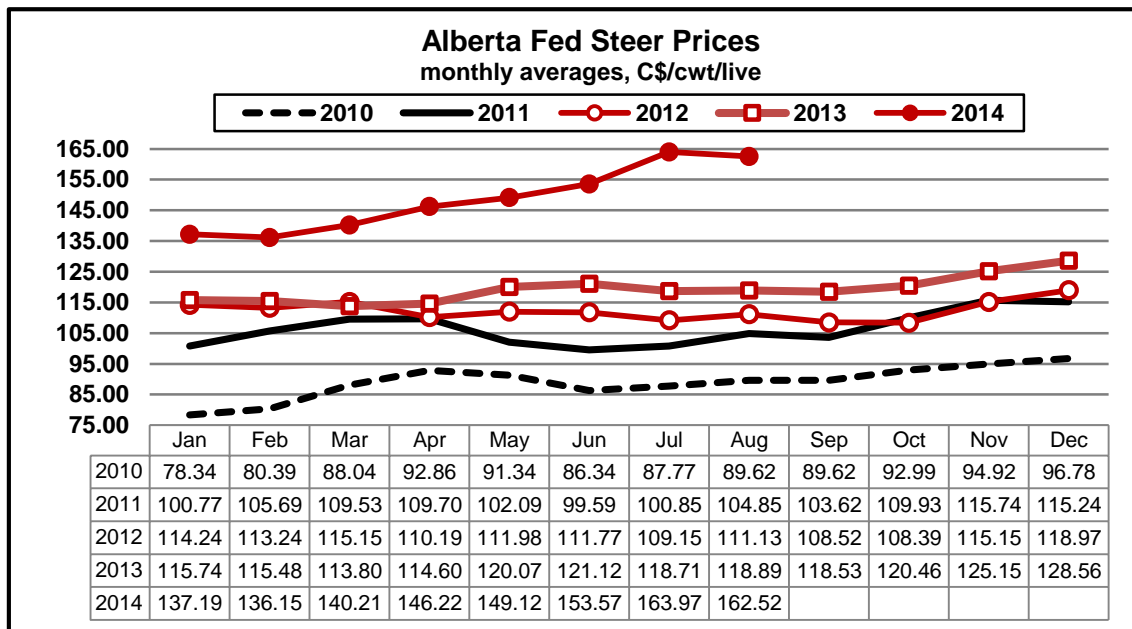
Statistical data for July 1, 2014 placed the beef cow herd at 1 percent below the previous year's level, while the number of heifers retained for replacement stood at 3.5 percent below the July 1, 2013 total.

Record high live animal prices are the primary reason for these developments, as many of the older generation producers have seen these prices as the opportunity of their lifetime to liquidate and retire from business. While sustained high cattle prices would eventually prompt remaining producers to retain more beef heifers and consider expanding, for the time being, heifer retention has been inadequate to compensate for the beef cows and heifers lost to slaughter.

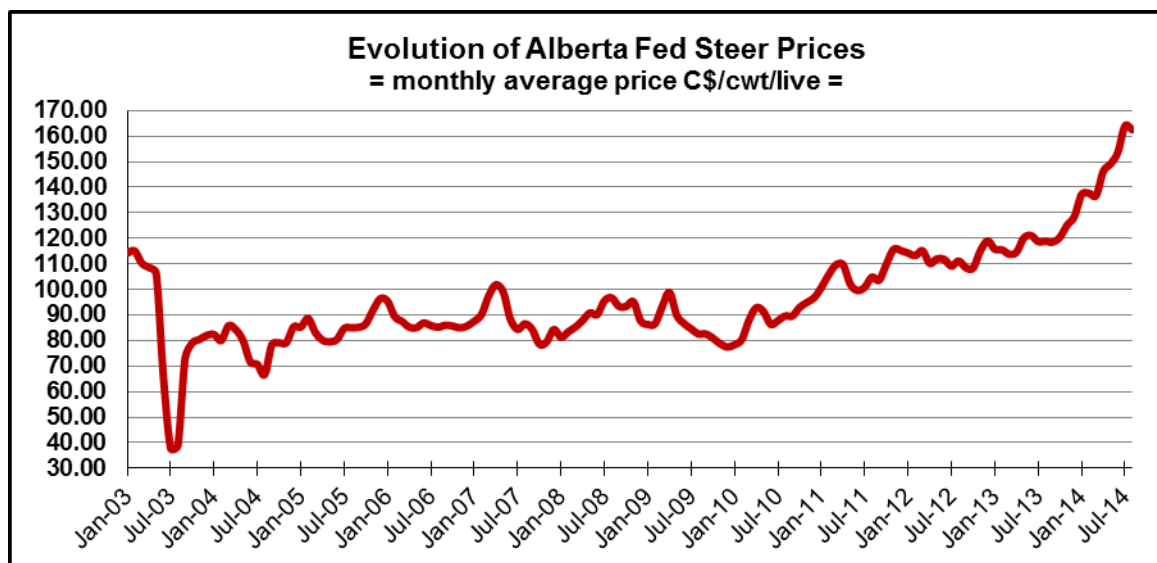


Source: Statistics Canada

Live cattle prices have continuously increased over the last year, reaching record high levels in the summer of 2014. Tight cattle supplies, reasonable feed costs and a solid beef demand have contributed to this price rise, forcing feedlots to aggressively bid for feeder cattle. The prospect of a bumper corn crop in the United States, which would translate in even lower feed costs south of the border, is likely to maintain the pressure on live cattle prices, which are expected to remain at exceptional high levels into 2015.



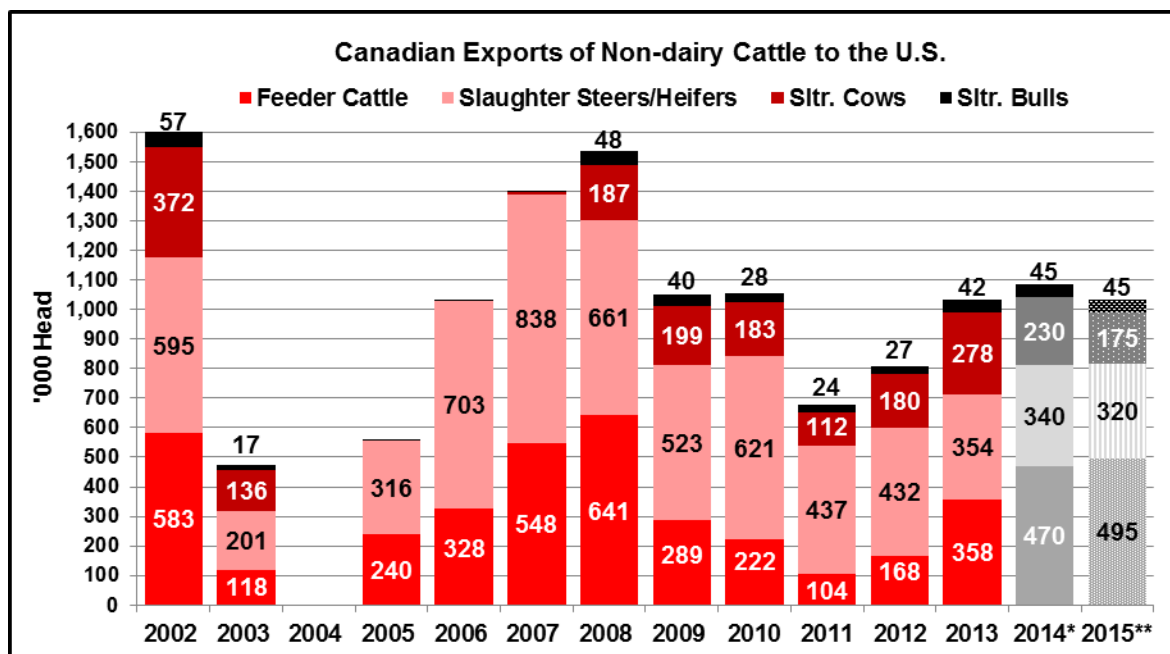
Source: Canfax



Source: Canfax

### Feeder Cattle Will Dominate Exports to the United States

Cattle exports are forecast at 1,050,000 head for 2015 or 50,000 head below the estimated level for 2014. Despite this modest decline, live exports are actually at exceptionally high levels, especially in relative terms when compared to the annual calf crop estimate or the domestic slaughter estimate, given the overall limited supplies of cattle in Canada.



Source: Global Trade Atlas / Post \*estimate \*\*forecast

Similar to 2014, the driver behind cattle exports will remain the feeder category, currently forecast to reach 495,000 head in 2015, up 25,000 head from the 2014 estimate. As mentioned earlier, the relatively cheaper feed costs in the United States, and the prospect of a bumper corn crop south of the border which would translate into even cheaper feed, are what maintain cattle prices at record high levels. As the U.S. cattle market pays more than the Canadian one, the incentive is in place for sustained feeder cattle exports.

Exports of beef cows and slaughter cattle will see a decline in 2015, as the overall inventories of these categories remain extremely tight, and as producers will start considering expending their herds and slow down the cow kill and increase heifer retention. Exports of bulls will continue steady, since the JBS plant in Brooks, Alberta is not likely to resume their slaughter.

## BEEF:

*NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data*

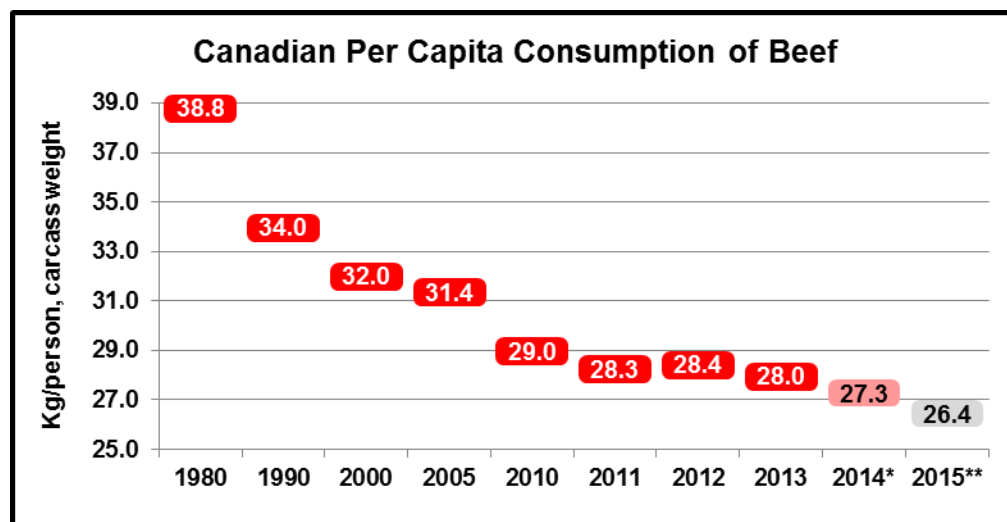
CANADA Meat BEEF and VEAL	2013		2014		2015	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Slaughter (Reference)	3,043	3,066	3,010	3,125	0	3,000
Beginning Stocks	38	38	35	34	0	20
Production	1,035	1,049	1,025	1,040	0	1,010
Total Imports	296	296	290	280	0	285
<b>Total Supply</b>	<b>1,369</b>	<b>1,383</b>	<b>1,350</b>	<b>1,354</b>	<b>0</b>	<b>1,315</b>
Total Exports	333	333	355	370	0	355
Total Dom. Consumption	1,001	1,016	970	964	0	940
Ending Stocks	35	34	25	20	0	20
<b>Total Distribution</b>	<b>1,369</b>	<b>1,383</b>	<b>1,350</b>	<b>1,354</b>	<b>0</b>	<b>1,315</b>

*Data in '000 metric tons, except for "slaughter" which is in '000 head*

## Slaughter and Beef Production on Decline

Post forecasts the 2015 domestic slaughter at 3,000,000 head or 4 percent below the estimated 2014 level. Slaughter of all cattle categories is expected to decline, due to the overall tight supply of animals and the fact that some producers may start considering expending and would retain more heifers for beef cow replacement.

Beef production is expected to drop in 2015 to 1,010,000 metric tons (MT), down 30,000 MT from the 2014 estimate. This is a proportional decline with the reduction in cattle slaughter, since carcass weights are not expected to be much different in 2015 from their 2014 levels. Unlike in the United States, carcass weights have declined in Canada in 2014, after they increased for two consecutive years. Under tight supply conditions, meat packers needed animals to keep their lines running, so they were eager to get the animals out of feedlots quicker. This trend is expected to continue into 2015, although improvements in feed costs may translate into few extra pounds added on animals.

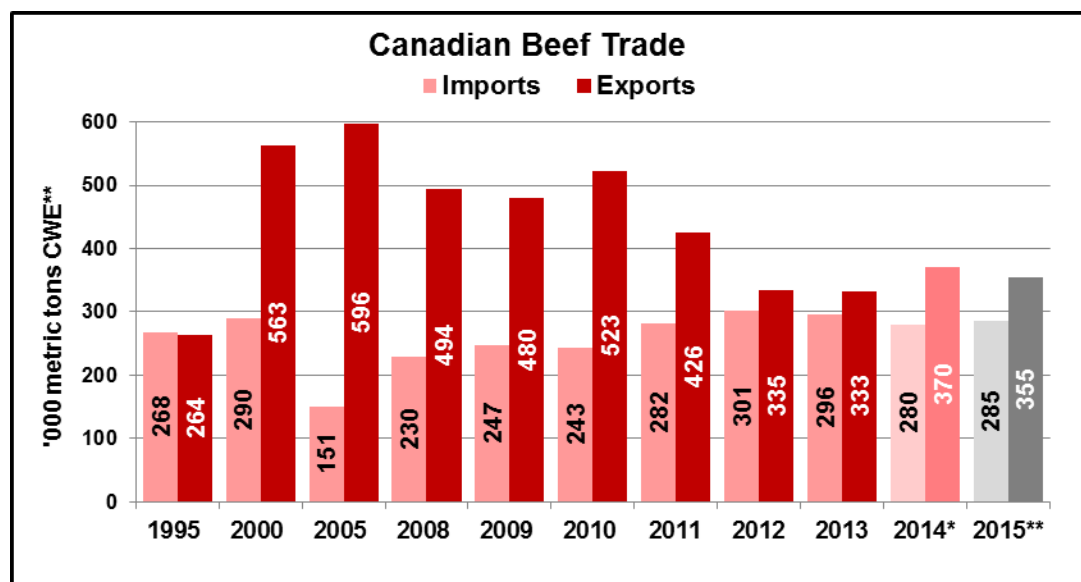


Source: Statistics Canada / Post \*estimate \*\*forecast

Beef consumption in Canada is expected to continue its downward trend, both overall and on a per capita basis. Limited supplies over an extended period of time have resulted in record high retail beef prices. Given the new price levels, the drop in consumption is not as strong as could have been expected, showing that certain consumers continue to appreciate their beef and are willing to pay for it. At the same time, some substitution is taking place, with a number of consumers moving away from beef into other relatively cheaper sources of animal protein, such as pork.

### **In Spite of a Weaker Dollar, Exports Are Poised to Decline**

Post forecasts 2015 beef exports at 355,000 metric tons (MT), or 15,000 MT below the 2014 estimated level. Despite a weaker Canadian dollar, which has so far favored exports, a limited production and tight supplies remain the primary reasons why beef exports are expected decline next year, to reach a level well below the typical volumes observed over the past decade. The United States remains the primary export destination for Canadian beef, with Mexico and several Asian markets accounting for most of the balance.



Source: Global Trade Atlas / Post \*estimate \*\*forecast

Imports of beef are forecast to rise modestly in 2015, up 5,000 MT to a total of 285,000 MT. In general, the weaker Canadian dollar has not been supportive of large import volumes, although the limited domestic supplies have put pressure to bring the meat from abroad. The United States, as a traditional supplier of beef to Canada, remains the primary import market, however with a diminished share in the total volume due to shortages. In 2014, Canada stepped up imports from Australia, Uruguay and New Zealand, which all gained market share as they supplied increased amounts to satisfy the domestic demand.

Canada: Beef Imports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change 2014/2013
	2012	2013	2014	2012	2013	2014	
<b>World</b>	<b>137,802</b>	<b>151,182</b>	<b>142,319</b>	100.00	100.00	100.00	<b>- 5.86</b>
United States	99,936	114,117	89,863	72.52	75.48	63.14	- 21.25
Australia	8,868	10,365	20,719	6.44	6.86	14.56	99.90
Uruguay	8,536	12,339	15,976	6.19	8.16	11.23	29.47
New Zealand	17,988	11,978	12,801	13.05	7.92	8.99	6.87
Brazil	2,027	1,528	2,429	1.47	1.01	1.71	59.01
All other countries	447	855	531	0.32	0.57	0.37	-37.89

Source: Global Trade Atlas / \*Conversion to carcass weight equivalent (CWE) at 1.4 for fresh, chilled and frozen meat, and at 1.79 for salted and processed meat



Canada: Beef Exports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change
	2012	2013	2014	2012	2013	2014	2014/2013
<b>World</b>	<b>197,160</b>	<b>167,332</b>	<b>183,022</b>	100.00	100.00	100.00	<b>9.38</b>
United States	157,613	128,702	142,361	79.94	76.91	77.78	10.61
Hong Kong	13,226	14,068	12,764	6.71	8.41	6.97	- 9.27
Mexico	14,885	6,867	10,395	7.55	4.10	5.68	51.38
Japan	3,788	7,687	7,850	1.92	4.59	4.29	2.12
China	165	2,896	4,892	0.08	1.73	2.67	68.95
Taiwan	296	317	1,050	0.15	0.19	0.57	231.22
Saudi Arabia	0	1,274	674	0.00	0.76	0.37	- 47.12
All other countries	7,187	5,521	3,036	3.65	3.30	1.66	-45.01

Source: Global Trade Atlas / \*Conversion to carcass weight equivalent at 1.4

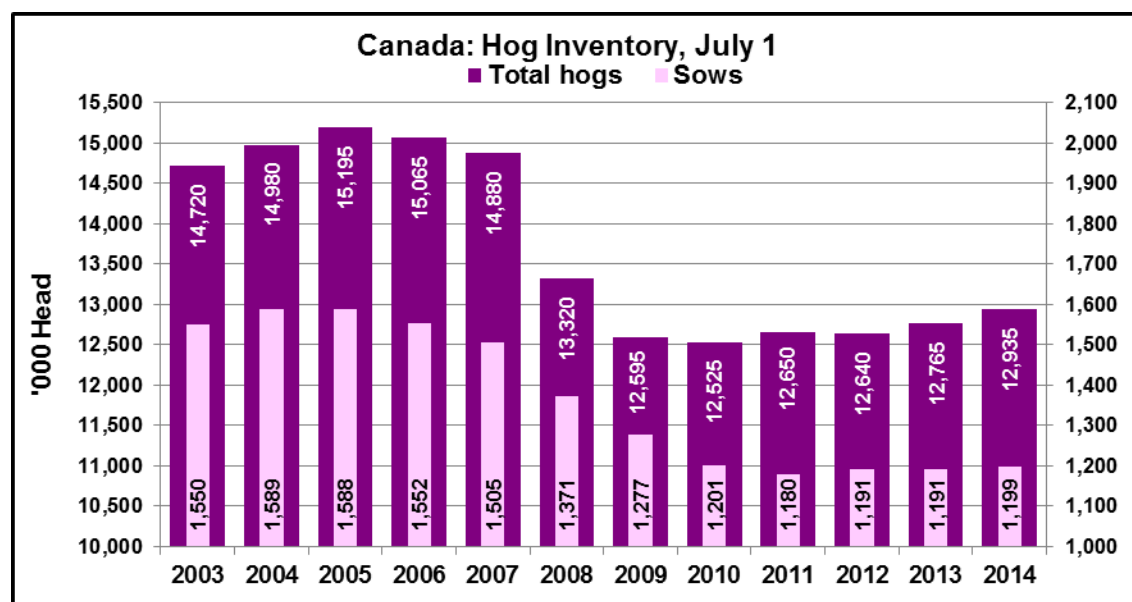
## HOGS:

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

CANADA Animal Numbers SWINE ('000 head)	2013		2014		2015	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Total Beginning Stocks	12,610	12,610	12,745	12,955	0	13,281
Sow Beginning Stocks	1,188	1,188	1,192	1,193	0	1,198
Production (Pig Crop)	27,390	27,359	27,300	27,400	0	27,700
Total Imports	1	1	1	1	0	1
<b>Total Supply</b>	<b>40,001</b>	<b>39,970</b>	<b>40,046</b>	<b>40,356</b>	<b>0</b>	<b>40,982</b>
Total Exports	4,975	4,752	4,750	4,650	0	4,750
Total Slaughter	20,929	20,922	20,800	20,900	0	21,000
Loss	1,352	1,341	1,600	1,525	0	1,500
Ending Inventories	12,745	12,955	12,896	13,281	0	13,732
<b>Total Distribution</b>	<b>40,001</b>	<b>39,970</b>	<b>40,046</b>	<b>40,356</b>	<b>0</b>	<b>40,982</b>

### Hog Sector to Stay Stable, Display Modest Growth

The hog sector remains stable and is expected to post a moderate growth in 2015. Total inventories on January 1, 2015 are currently forecast to be 2.5 percent higher than at the corresponding point in time in 2014, and so is the sow herd, estimated at 0.4 percent above the year ago level. Data released by Statistics Canada showed increases for the total and the sow herds on both January 1 and July 1, 2014, while farrowing intentions rose in the second half of the year.

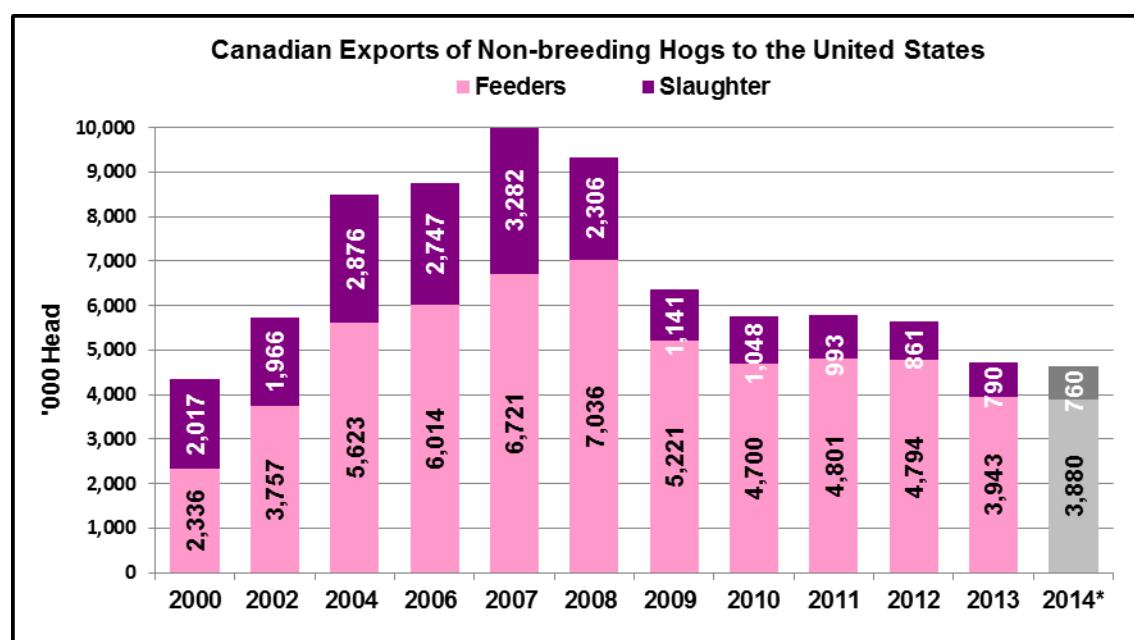


Source: Statistics Canada

While the profitability in the hog sector has improved tremendously in 2014, driven by record high hog prices, producers are still reluctant to launch themselves into a wide-scale herd expansion. Many producers prefer to use their increased revenues to repair and upgrade their current operations, pay off debts and become financially more secure, while there are still some producers who continue to struggle financially.

### Live Hog Exports Steady

Post forecasts a very modest increase by 100,000 head in hog exports in 2015 versus the estimated 2014 level, which currently stands at 4,650,000 head. While hog supplies remain limited, improved feed costs in the United States and the associated higher live prices will support exports of feeder hogs. Similar to the current year, the 2015 pig crop will have to be shared between exports and the domestic need for slaughter.



Source: Global Trade Atlas / \*Post estimate

Western Canada is the primary supplier of feeder hogs to the United States and is also the region where some packers have recently struggled to keep the slaughter lines running at normal capacity, due to lack of finished hogs. Some packers have developed a vertically integrated business model, with their own growing barns supplying a good share of the slaughter pigs, which helped them during these times of limited supplies. In Manitoba, the hog sector continues to be adversely impacted by the stringent environmental requirements, which prevents producers to expand their hog growing operations. As a result, some modest investment in increasing hog production is occurring in southern Saskatchewan, adjacent to the Manitoba hog growing region. In the presence of limited domestic barn capacity, and in the context of particularly good live prices, many feeder hogs find their way into the export market south of the border.

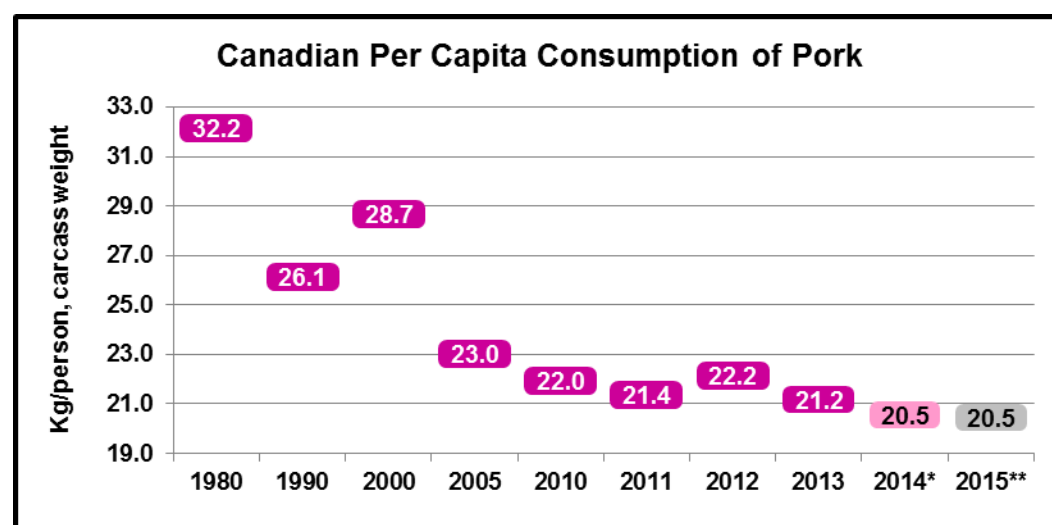
**PORK:**

*NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data*

CANADA Meat SWINE	2013		2014		2015	
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	USDA Official Data	NEW Post Forecast
Slaughter (Reference)	20,929	20,922	20,800	20,900	0	21,000
Beginning Stocks	67	67	52	58	0	55
Production	1,820	1,819	1,820	1,820	0	1,825
Total Imports	221	220	215	205	0	205
<b>Total Supply</b>	<b>2,108</b>	<b>2,106</b>	<b>2,087</b>	<b>2,083</b>	<b>0</b>	<b>2,085</b>
Total Exports	1,246	1,245	1,265	1,245	0	1,250
Total Dom. Consumption	810	803	777	783	0	785
Ending Stocks	52	58	45	55	0	50
<b>Total Distribution</b>	<b>2,108</b>	<b>2,106</b>	<b>2,087</b>	<b>2,083</b>	<b>0</b>	<b>2,085</b>

**Foreign and Domestic Markets Continue to Support Pork Production**

Post forecasts the 2015 pork production at 1,825,000 metric tons (MT), just 5,000 MT above the estimated 2014 volume. The increase is primarily attributable to the modest estimated rise in slaughter, since carcass weights are expected to remain relatively flat in 2015 compared to 2014. Hog weights have already increased over the past several years, as domestic packers wanted to align themselves with their competitors south of the border.



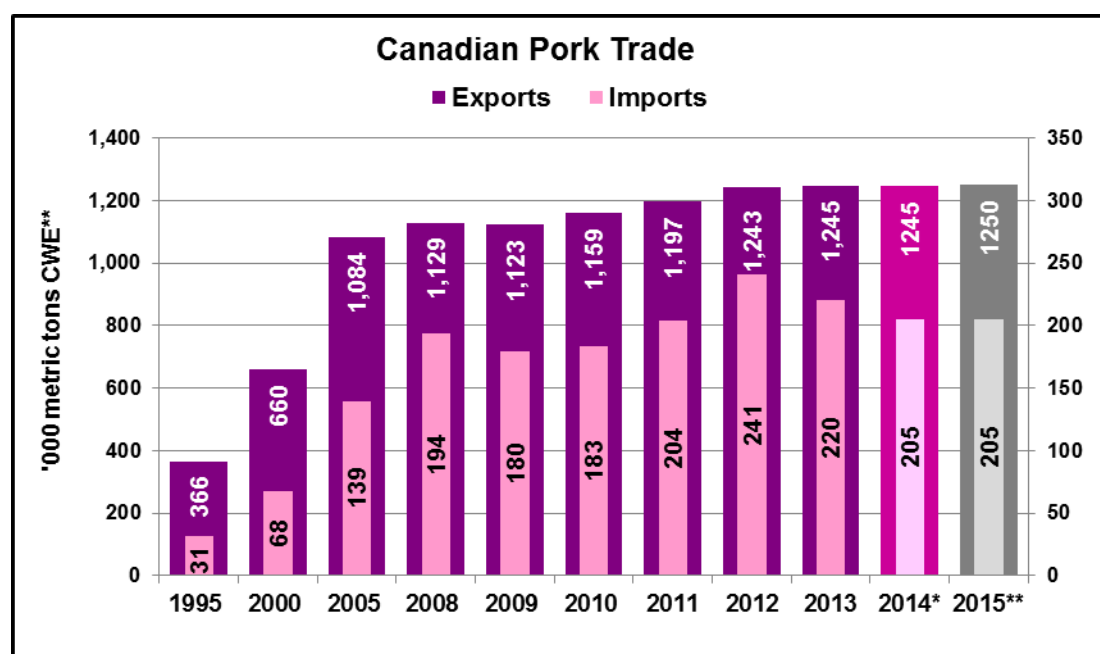
Source: Statistics Canada / Post \*estimate \*\*forecast

Consumer reports continue to indicate that domestic demand for pork has remained elevated during the past several months. Given the recent increases in retail meat prices, pork has remained a relatively cheaper choice, prompting many consumers to switch away from beef or poultry. Post anticipates that

domestic per capita pork consumption will remain stable into 2015, at around 20.5 kg/person. Given the steady domestic demand, the bulk of pork consumption will continue to take place abroad. With two thirds of the Canadian pork production being exported, the industry relies heavily on the demand from foreign markets, which has been very strong over the past year.

### Pork Exports to Remain Steady

Post forecasts total annual pork exports to reach 1,250,000 metric tons (MT) in 2015, or 5,000 MT above the estimated volume for 2014. The weaker Canadian dollar will continue to support exports, while global demand remains solid. The recent ban by Russia on a number of food items, including pork, is not estimated to impact much the overall Canadian exports, as volumes initially destined to Russia will easily find other destinations.



Source: Global Trade Atlas / \*Post estimate \*\*forecast

In 2014, pork exports to Russia were anticipated to return to the 2012 levels, year when Russia became the second export market for Canada. This trend was abruptly curbed in the second half of the year, following a food ban imposed by Russia on a number of items, including pork. Post estimates that shipments that were en route and destined for Russia found other destinations, while future pork volumes that would have been exported there, will also find other markets, including in the region, among Russia's neighboring countries. Overall, Post estimates that the Russian food ban will not have a major impact on Canada's exports of pork.

Japan remains Canada's second export market for pork, after the United States, with an increased share of the overall exports. Demand in Mexico and in several Asian markets remained solid. On a year-to-date basis exports to Korea continued to decline, as the American pork is becoming increasingly more competitive as a result of the implementation of the Korea-US free trade deal. However, the Canada-Korea trade agreement was finally completed in 2014, and Post anticipates that upon implementation, Canadian pork would start regaining some of the market share it lost in recent years.

Canada: Pork Exports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change
	2012	2013	2014	2012	2013	2014	2014/2013
<b>World</b>	<b>613,282</b>	<b>610,281</b>	<b>609,050</b>	100.00	100.00	100.00	<b>- 0.20</b>
United States	177,830	191,514	194,374	29.00	31.38	31.91	1.49
Japan	118,716	105,533	114,243	19.36	17.29	18.76	8.25
Russia	124,921	50,438	102,601	20.37	8.26	16.85	103.42
China	38,813	69,156	51,830	6.33	11.33	8.51	- 25.05
Mexico	18,834	29,183	33,418	3.07	4.78	5.49	14.51
Korea South	37,716	28,031	20,202	6.15	4.59	3.32	- 27.93
Taiwan	10,749	18,851	17,744	1.75	3.09	2.91	- 5.87
Philippines	17,396	22,394	16,923	2.84	3.67	2.78	- 24.43
Australia	21,651	18,219	12,346	3.53	2.99	2.03	- 32.23
Hong Kong	6,932	6,434	6,415	1.13	1.05	1.05	- 0.30
Colombia	2,715	6,573	6,312	0.44	1.08	1.04	- 3.97
New Zealand	4,006	4,883	3,841	0.65	0.80	0.63	- 21.34
All other countries	33,003	59,072	28,801	5.38	9.68	4.73	-51.24

Source: Global Trade Atlas / \*Conversion to carcass weight equivalent at 1.3

Post estimates pork imports in 2015 at 205,000 MT, flat from the previous year, with the United States as major supplier, having over 90 percent market share. The Canadian dollar is not expected to gain any strength going into 2015, which is one of the major factors discouraging imports. Despite its huge production, in any given year, Canada needs to import additional volumes of pork to provide specific meat cuts in shorter supply on the market. For 2014, Post estimates a 7 percent reduction in imports to 205,000 MT, from 220,000 MT in 2013.

Canada: Pork Imports, January - June (metric tons, CWE*)							
	Quantity			% Market Share			% Change
	2012	2013	2014	2012	2013	2014	2014/2013
<b>World</b>	<b>114,495</b>	<b>111,604</b>	<b>102,088</b>	100.00	100.00	100.00	<b>- 8.53</b>
United States	108,752	105,296	94,891	94.98	94.35	92.95	- 9.88
Germany	646	1,612	2,362	0.56	1.44	2.31	46.58
Denmark	1,070	918	1,139	0.93	0.82	1.12	24.15
Chile	1,628	1,307	919	1.42	1.17	0.90	- 29.67
Spain	23	48	738	0.02	0.04	0.72	1447.51
All other countries	2,376	2,423	2,039	2.08	2.17	2.00	-15.85

Source: Global Trade Atlas / \*Conversion to carcass weight equivalent at 1.3